MINUTES
of the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

August 14, 2007
State Capitol
Santa Fe

The second meeting of the Investments and Pensions Oversight Committee for the 2007 interim was called to order by Senator John Arthur Smith, chair, on Tuesday, August 14, 2007, at 10:15 a.m. at the State Capitol in Santa Fe.

Present
Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Sen. Phil A. Griego
Rep. Larry A. Larrañaga
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent
Sen. Carroll H. Leavell

Advisory Members
Rep. Andrew J. Barreras
Gary Bland, State Investment Council (SIC)
Mark Canavan for James Lewis, State Treasurer
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement Association
Bob Jacksha, Educational Retirement Board
Olivia Padilla-Jackson, State Board of Finance
Sen. Leonard Lee Rawson
Rep. Sheryl Williams Stapleton

Sen. Pete Campos
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Rep. John Pena
Rep. Jane E. Powdrell-Culbert
Sen. Michael S. Sanchez
Sen. H. Diane Snyder
Rep. Eric A. Youngberg

Staff
David Abbey, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Norton Francis, LFC
Stephanie Schardin, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Tuesday, August 14

The committee adopted the minutes of the July 3, 2007 meeting.

Health Care Options

-Raúl Burciaga, Assistant Director, LCS
-Ruby Ann Esquibel, Health Policy Coordinator, Human Services Department (HSD)

The current state of health care in New Mexico was summarized as follows:

- over 400,000 (21.1%) people in New Mexico do not have health insurance;
- 41% of New Mexico employers do not provide health insurance;
- 85,000 (16.3%) children under 18 are uninsured;
- 26% of New Mexicans are uninsured six months or more (under 65, noninstitutionalized);
- most part-year uninsured are children six-18 and adults under age 30;
- half of New Mexicans who are uninsured six months or more during the year are now Medicaid/SCHIP eligible; and
- churning increases administrative cost and may compromise access and quality.

In 2003 and 2004, the Health Care Coverage and Access Task Force identified issues with coverage and access and recommended legislation. In 2005 and 2006, the Insure New Mexico Council, chaired by the lieutenant governor, recommended legislation designed to reduce the number of people in New Mexico without health insurance and to increase the number of small employers, including nonprofits, offering health insurance to their employees.

This initiative expanded the State Coverage Insurance (SCI) Program for small employers and self-employed individuals currently without insurance, now serving 8,000 New Mexicans, and lowered the premiums for the Health Insurance Alliance (HIA), now enrolling 6,000 New Mexicans. Also, it created the Small Employer Insurance Program (SEIP), targeted toward nonprofits and small employers not currently offering insurance, with 50 groups in the enrollment process (in 2007, nonprofits were excluded from having to be uninsured prior to enrolling). Specifically, the initiative did the following:

- expanded health coverage for unmarried dependents by allowing them to stay on parents' individual and group health plans until 25 years old;
- required insurers to offer health insurance plans for part-time employees when employers choose to offer this coverage;
- expanded Medicaid eligibility for pregnant women to 185% FPL;
- created Premium Assistance for Kids (PAK) and Premium Assistance for

Maternity (PAM) programs for uninsured children and pregnant women who are not Medicaid eligible;

- funded enhanced Medicaid outreach to children, with a special initiative for Native American and Hispanic children;
- provided enhanced Medicaid outreach to the Navajo Nation and now enhancing to urban Indians and Apache tribes;
- changed Medicaid recertification and income disregards to encourage easier enrollment into the program for children who can document eligibility;
- expanded New MexiKids income disregards for children ages 0 to 19 with family incomes of up to 235% FPL; and
- expanded Medicaid eligibility to foster children to age 21 and took the first steps toward expanding Medicaid for adults up to 100% FPL.

Governor Richardson is offering the following five-point proposal:

- Vendors of the state will offer employees insurance — Phase-in requirement that employers doing business with the state will offer health coverage to their employees.
- Assure state employees are insured — Identify state employees who decline state health insurance coverage; encourage their coverage through the state, a spouse or elsewhere.
- Maximize Medicaid for low-income adults — Increase Medicaid coverage for adults up to 100% FPL.
- Expand the SCI Program — Cover more working adults up to 300% FPL with cost-sharing based on income
- Analyze models for universal health coverage for New Mexico — Creation of Health Coverage for New Mexicans Committee (HCNMC) to identify and analyze three to five universal health coverage models and recommend next steps.

The following is an overview of three health coverage models:

New Mexico Health Security Plan (HSP)

- Single, statewide comprehensive health insurance plan for all residents who enroll; services mirroring those of New Mexico state employees.
- Premiums scaled to income.
- Employers pay a percentage of payroll.
- Self-insured employers elect to participate.
- Administered by an appointed commission that would negotiate provider fees and facility budgets.
- Cost savings through reduction in administration of multiple health insurance companies and through provider rate negotiations and oversight.

New Mexico Health Choices Plan (HCP)

- Market-based universal coverage through government-subsidized vouchers provided to individuals.

- Single, statewide risk pool replaces individual and group health insurance. markets.
- Range of private and government options to obtain health insurance.
- New Mexicans not covered by public programs such as Medicaid would be given vouchers to buy insurance through commercial carriers preselected by a newly created alliance.
- Version 1 coverage offered on an individual basis and employers contribute via payroll tax.
- Version 2 employers continue to offer coverage and are exempted from payroll tax for workers enrolled in their health plan; insurance coverage would be mandatory for all residents.

New Mexico Health Coverage Plan (NMHCP)

- Combined public and market-based universal coverage plan that preserves roles for both the current public and private health care system.
- Focuses on coverage for currently uninsured New Mexicans.
- Includes expansion of Medicaid for low-income families and workers.
- Financial incentives for employers to provide health insurance for workers (tax credits and fair-share contributions).
- Requires all people living in New Mexico to buy commercial insurance, enroll in employer-sponsored insurance or enroll in state- or federally subsidized insurance if eligible.
- Enhanced funding for primary care clinics and FQHCs Cost, Access and Quality Council.

The highlights of the Mathematica cost study are as follows:

- $6.11 billion will be spent in New Mexico on health care for this population in 2007 (excluding Medicare).
- Cost are $5.93 billion (HSP), $6.3 billion (HCP) or $6.7 billion (NMHCP) to cover all nonelderly noninstitutionalized New Mexicans.
- Costs of each model might be lowered (or increased) by changing the assumptions about rates paid to providers; the type and amount of services or benefits offered; wellness and public health initiatives; and actions to reduce nonmedical costs.
- Models have positive impacts on the state's economy due to increased federal dollars and spending, especially in rural areas.
- Many New Mexicans are currently or will soon be eligible for employer-sponsored or public programs of health coverage, if adequate state general funds are appropriated to draw available federal match and if efforts are made to require those eligible to enroll.
- ERISA and federal tax laws may affect (but not necessarily impede) implementation of some aspects of each of the models and need to be considered to avoid unintended consequences.

- Within five years, it will cost more to do nothing and have the number of uninsured New Mexicans grow than to implement some form of coverage for all residents of New Mexico.

The next steps in the process are to:

- create a single statewide appointed health care authority;
- manage products to increase coverage and set minimum benefits;
- serve as a connector for coverage products;
- set standards for performance by insurance carriers and providers;
- identify and implement activities to increase quality and access and control growth in costs;
- consolidate state and quasi-state health coverage/policy agencies;
- create a "culture of coverage";
- require individuals to have coverage by 2010;
- require employers to offer insurance or contribute;
- create a package within Medicaid that persons not covered by public programs can buy into based on income under 400% FPL. Allow individuals without employer-sponsored insurance and not eligible for public programs to buy into state employees risk pool;
- require that insurance companies spend 85% of premiums on medical services;
- require insurance companies to offer coverage to anyone, with limits on what they can charge, above average cost;
- phased reduction of rating up based on experience of individuals/groups;
- require providers to accept any form of insurance coverage with limits on common data reporting for all insurance company products;
- require brokers and agents to offer public products;
- require phased-in electronic health transactions;
- increase provider recruitment/retention activities; and
- offer a moratorium on insurance benefit mandates until 2010.

Representative Trujillo asked if all New Mexicans would have to purchase health care. Ms. Esquibel responded that everyone would have to buy health care. She noted that the state of Maine created a plan without a mandate and the population did not sign up for health care. Representative Trujillo noted that many people work for cash and he does not understand how people in the cash economy are going to be compelled to purchase health care. He also noted that the state has an illegal alien population and that it could be difficult to compel them to purchase health care and prevent them from using the emergency room. Mr. Burciaga responded that it is necessary to create a "culture of coverage" and that one mechanism for enforcement might be a requirement to show proof of health care when registering a car.

Senator Rawson stated that there is a lot of turnover in the construction industry. As a result, business usually has a waiting period for beginning coverage. He also asked how workers' compensation factors into the universal health care plans.

Representative Bratton noted that large insurers negotiate with providers and that some providers are beginning to refuse to accept certain insurance plans. Indeed, some providers refuse to accept Medicare patients. Mr. Burciaga responded that, to avoid cost shifting, everyone would have coverage that would eliminate uncompensated care. Ms. Esquibel noted that part of the solution is insurance reform that would direct more of the premium dollars to direct care and that would allow the providers to receive higher compensation.

Senator Jennings stated that mandating employers to provide health care coverage could put New Mexico at a competitive disadvantage. He also noted that any universal plan would need to include a transportation component so that people can afford to travel from rural areas to major population centers. Senator Jennings stated that people are skeptical about surrendering control of health care to the Richardson administration. The administration has been issuing mandates and is not responsive to questions from legislators.

Senator Smith noted that the state does not have the luxury of running a deficit like the federal government and cannot afford to make an error with the budget for universal health care. He asked what interaction there might be between the New Mexico universal health care proposal and a federal plan. Mr. Burciaga stated that the federal plan currently under consideration deals primarily with children and may or may not continue to allow state waivers. Mathematica did not take into consideration any federal plans.

Senator Smith stated that the state has not adequately funded existing retirement plans and that he is very concerned about jumping into a new, very expensive program that has a lot of unknowns.

Representative Heaton stated that he does not believe that the federal government will provide a universal health care plan and that it will be up to the states to find solutions. He noted that the American health care system is grossly inefficient. He said that the system is a "procedure-driven" system and that providers are not paid to make people well, they are paid to perform procedures. He stated that we have experience with Medicare and Medicaid and that these are essentially single-payer plans. He stated that New Mexico has 400,000 uninsured citizens. Even if many of the uninsured can be covered by Medicaid, the state would need to spend $280 million to cover the rest. He said that the estimate of uncompensated care is $500 million. Accuracy of this estimate is very important because the success of a universal health care plan depends upon elimination of uncompensated care.

Representative Heaton asked if a universal care plan would be an obligation of the state from the GASB rules. Ms. Esquibel said she is not familiar with the GASB implications.

Senator Carraro stated that the obligations of the state are such that it is essentially broke. He cautioned that the state must not embark on a program that will cause the legislature to raid the permanent funds.

Senator Papen reiterated the need for a transportation component to the universal plan. She expressed concern about providers accepting universal health care and remaining in the state.

Representative Varela stated that the first thing that needs to be done is to bring existing health care costs under control. The same needs to be done with the insurance industry. He believes that this issue cannot be dealt with during a thirty-day session of the legislature.

Small Business Investment Corporation (SBIC)

-Paul Goblet, Financial Advisor, SBIC

The chronological history of the SBIC is summarized as follows:

2000

- Enabling legislation to create SBIC passed in session.
- Granted 1/4% of Severance Tax Permanent Fund (STPF).
- Board appointed by Governor Johnson.
- Purpose: make equity investments in New Mexico businesses for land, buildings and equipment in support of SBA- or USDA-approved loans.

2001

- $10 million distributed to SBIC.
- Board creates/adopts bylaws and investment policy.
- Board retains financial advisor to develop a marketing and investment strategy.
- Board determines best investment strategy is to partner with financial.
- Partners versus making direct investments to broaden distribution of capital and to expand scope of activity to include lending.

2002

- Board seeks amendment of statute to utilize financial partners.
- Board approves first equity investment in Santa Fe business.
- Legislature approves amendments to statute.
- Board develops and approves expanded investment policy.
- Board begins development of formal relationships with financial partners.

2003

- SBIC signs agreement with ACCION NM to provide up to $5 million in capital for micro-loans.

- SBIC becomes first limited partner investor in Flywheel Ventures to provide seed stage equity to technology companies. Commits $1.3 million.
- SBIC established micro-loan lending pool with the New Mexico Community Development Loan Fund for $2 million.
- SBIC becomes initial institutional limited partner investor in Verge Fund to make early-stage investments in technology companies. Commits $1.3 million.

2004
- SBIC seeks and receives an increase from 1/4% from to 1/2% from STPF.
- SBIC helps to create new equity fund to invest in traditional businesses and becomes primary limited partner in New Mexico Growth Fund. Commits $1.5 million.
- SBIC expands commitments to Verge Fund to $1.8 million, helps to start parallel Verge 1.5 Fund. Commits $3 million.
- SBIC creates micro-lending relationship with WESST Corp. for $500,000.

2005
- SBIC seeks and receives additional 1/4% from STPF.
- SBIC helps to create new social fund in New Mexico. Becomes catalyst in creation of New Mexico Community Capital. Commits $6 million in capital as founding Limited Partner.
- SBIC increases commitment to New Mexico Growth Fund to $5 million.

2006
- SBIC aids New Mexico Community Capital and New Mexico Growth Fund in sourcing additional limited partner investors. Increases commitments to both funds.
- SBIC helps create New Mexico Growth Fund II. Commits $3.5 million.

2007
- SBIC seeks and receives increase to 1% of STPF.
- SBIC helps to create New Mexico Gap Fund to make incubation-type equity investments in technology startups.
- SBIC expands relationship with the loan fund to provide $3.5 million in micro-loans.
- SBIC increases commitments in New Mexico Growth Fund I and New Mexico Community Capital.
- SBIC begins dialogue with two additional lending financial partners.
- SBIC board agrees to lead financial education initiative in cooperation with the Small Business Development Corporation and others to assist businesses in becoming more likely to secure business loans or equity investments.

The goals of SBIC are summarized as follows:

- SBIC hopes to identify and fill the funding gaps in New Mexico versus competing with traditional, efficient sources of capital.
- SBIC endeavors to be catalytic in the formation of financial partners to provide equity capital to small, emerging New Mexico businesses.
- SBIC tries to ensure the delivery of capital outside of the Albuquerque metro market via its agreements with financial partners.
- SBIC hopes to be a primary source of capital to New Mexico small businesses, most of which would not receive loans or equity investments from traditional sources.
- SBIC strives to achieve attractive financial returns to the taxpayers while being a driver of economic development and community enhancement.

The current status of investments and finances is summarized as follows:

- SBIC, through its partnerships with ACCION NM, the loan fund and WESST Corp., has made over 1,300 micro-loans to business in over 100 communities.
- SBIC has been catalytic in the creation of seven New Mexico domiciled equity investment funds.
- SBIC has made equity investments as small as $75,000 and as large as $3 million in 22 New Mexico businesses.
- SBIC has actively participated in Lieutenant Governor Denish's small business forums in 24 communities around the state.
- SBIC has committed nearly $9 million to micro-lenders, which has led to over $15 million in loans over four years, and has committed over $23 million to seven equity investment funds.
- Annual loan loss experience of approximately 3%.
- Too early to gauge equity investments. All but one is carried at cost.
- Annual administrative expenses of approximately $150,000.
- After all administrative expenses, additions to loan loss reserves and management fees for equity funds, the SBIC should generate a small positive return to the STPF.
- 1,300 micro-loans have not added a significant number of jobs, but they have strengthened numerous businesses and aided dozens of start-up businesses in over 100 communities.
- Equity investments in 22 businesses have helped create nearly 200 jobs, but these are rapidly growing businesses. For example, Aridien, Inc., in Belen employed three people in 2005. It just moved into a new 9,000 sq. ft. manufacturing facility, currently employs 15 people and anticipates increasing employment to over 30 people in the next year.
- Most of these businesses would not have been able to secure traditional capital.
- Only two of the seven equity funds would exist today without the SBIC playing a critical role in their formation and funding.

Senator Smith expressed concern about informing businesses in rural areas about the availability of loans. Mr. Goblet explained that the SBIC has contractual relationships with financial partners that actually make loans. The contracts require that less than 50% of loans be made in the Albuquerque area; the balance must be made in other communities.

Senator Carraro congratulated staff for scheduling the SBIC presentation. He appreciates the update because this is a program that legislators seldom hear about. He noted that the SBIC is making loans to for-profit partners who, in turn, actually make loans to small businesses. Mr. Goblet responded that the SBIC is a cost-effective conduit for money. The SBIC does not have the infrastructure to make and manage loans.

Senator Carraro asked about the current assets of the SBIC. Mr. Goblet responded that the balance is $30 million. Senator Carraro also asked about earnings. Mr. Goblet stated that the SBIC earns 3% on loans and is expecting to receive 20% on private equity investments; however, it is too soon to have actual earnings on the private equity investments.

Senator Carraro stated that the way the SBIC is functioning is not what he envisioned when he co-sponsored the legislation that created the SBIC.

Representative Larrañaga asked about the amount or number of loans outside of Albuquerque. Mr. Goblet responded that approximately one-third of loans are outside of Albuquerque; the dollar volume is lower than one-third.

Representative Bratton noted that passing taxpayer money to for-profit lenders may be a violation of the anti-donation clause of the constitution.

Subprime Lending Investments

-Gary Bland, SIC
-Kay Chippeaux, Fund Manager, SIC
-Bob Gish, Public Employees Retirement Association (PERA)
-Bob Jacksha, Educational Retirement Board (ERB)

Subprime lending is defined as loans made to credit-impaired borrowers. Borrowers may have any combination of the following:

- low FICO (creditworthiness) scores, generally below 620, an impaired payment history or bankruptcy;
- unable to document income;
- low income;
- low collateral value; or
- high ratio of total expenses (including debt payments) to income.

Borrowers are generally charged higher interest rates, points and origination fees.

Documentation and verification of income and collateral are much less stringent than with prime loans. Loans are generally smaller, have higher loan-to-value ratios and have prepayment penalties, making it difficult for the borrower to refinance to more attractive prime mortgages.

The types of subprime mortgages issued include:

- hybrid ARMs (adjustable rate mortgages) loans that generally have an initial low teaser rate for two to 10 years, then reset to a floating interest rate that is usually much higher;
- interest-only loans that require a borrow to pay interest for a set number of years, then switch to a higher payment to amortize the balance over the remaining life of the loan;
- traditional mortgages at higher rates; and
- loans with a high loan-to-value ratio.

Factors causing distress in subprime investments include:

- late 2005 and all of 2006 saw peak origination volumes and sharply decreased underwriting quality, partially caused by overall global liquidity. Too much money chasing too few deals lowering the required reward for the risk taken;
- hybrid ARM loans made in 2005 are resetting, and homeowners are unable to pay the higher mortgage payments;
- house price appreciation is down, making refinancing difficult or impossible; and
- increased underwriting requirements and decreased mortgage liquidity today make it difficult to refinance and/or modify mortgages.

The outlook for investors includes:

- borrowers delinquent on their mortgage payments for 2006 are high, especially for this early in the seasoning process;
- expectations for losses in 2006 vintage subprime collateral are expected to be in the 10%-15% range;
- some banks are using "Mod Squads" for loan modification of existing mortgages. This is expected to have limited success;
- the most at-risk subprime collateral in CDOs is from late 2005, all of 2006 and early 2007 collateral;
- the rating agencies will continue to downgrade ABS collateral and tranches in ABS CDOs;
- there may continue to be pricing pressure and market value volatility due to forced selling because of downgrades, margin calls and overall lack of liquidity (no willing buyers in the short term) in the current ABS markets; and
- risks: contagion, unemployment increases and impact on economy.

Delinquencies have increased due to the following factors:

- lax underwriting procedures: many mortgage lenders loosened lending procedures and many loans were given based on poor documentation, no verification of income and no money down. In response, lenders have tightened lending standards;

- a correction in the housing market: from January 2006 to January 2007, data show housing prices have declined nationally by 4.7%; and
- resetting rates of ARMs: many subprime borrowers borrowed at adjustable rates with low introductory rates that have risen and make payments less affordable.

The investments most affected are:

- lower-rated mortgage backed securities (MBS), with the collateral of subprime loans:
    - MBS securities are packaged together and "securitized" or pooled together and sold on the open market. Purpose is to pool together exposures and risks of various assets (in this case, mortgages) and sell to investors;
    - MBS securities with larger tranches of subprime loans or with very low quality subprime loans are rated below investment grade; and
    - lower rated MBS with subprime loans as collateral most at risk; and
- collateralized debt obligations (CDOs) with large subprime exposure: CDOs are structured investment products with underlying collateral from debt instruments. Most at risk are the equity tranches of CDOs that have no investor protections.

Senator Griego asked about the impact of the federal reserve's infusion of funds in the market. Mr. Bland responded that the infusion of funds did not go into the subprime market and that it will take time for the infusion to have an impact. Mr. Bland also noted that defaults on prime loans are running higher than defaults on subprime loans. Defaults on prime loans are at a current rate of 4.0% compared to a normal rate of 0.4%. These defaults are typically on expensive vacation homes, e.g., in Vail and Aspen, and occur in the course of divorce.

Mr. Bland and Mr. Jacksha both observed that the greater worry than the performance of subprime investments is the overall impact on the equity market resulting from uncertainty.

In-Depth Examination of Real Estate Investing

-Steven Novick, Courtland Partners, Ltd.

Institutional real estate includes the traditional, such as office, retail, residential (apartments), industrial and hotels. Nontraditional property types include for-sale residential housing, senior housing, student housing, self-storage and structured finance (mezzanine loans).

Investors in institutional real estate include:

- pension funds and large institutions (endowments, corporations, etc.):
    - typically, 6-10% of portfolio allocated to real estate;
    - tend to own direct holdings and invest through pooled fund vehicles;

    - invest in both real estate debt and equity investments; and
    - usually outsource their real estate investing to an investment manager.
- private equity funds (private real estate):
    - seek value add - opportunistic returns;
    - perform acquisition, management, and disposition of assets; and
    - usually -5-8+ year time horizon.
- real estate investment trusts "REITs" (public real estate); and
    - usually publicly traded - some investors view these more as common equity than real estate.
    - not taxable at a corporate level;
    - own portfolios of real estate assets, usually in particular sectors; and
    - typically subject to corporate governance rules and regulations (e.g., the Sarbanes-Oxley Act).

Public vs. Private Real Estate	
Private real estate	Public real estate
Control of property assets	Greater liquidity
More stable income stream	More informational efficiency in asset pricing
High transactions costs	Greater geographical/property diversification for a given amount invested
Appraisal-based valuations	Increasing popularity with international legislation and increasing capital flows
Lower volatility of returns	Higher volatility of returns
More market inefficiencies create opportunity for value and opportunistic returns	

The types of private real estate investments are:

- open ended funds
    - typically core (8% return objective); and
    - can invest and redeem at certain times (no control except redemption timing).
- closed ended funds:
    - typically value or opportunistic (-12-20% + return objective); and
    - 7 - 10 year investment cycle (limited to no control).
- joint ventures (separate accounts):
    - can choose joint-value partner based on risk/return parameters;
    - maintain major control rights; and
    - term varies and controlled by pension fund.

The function of a real estate consultant is to:

- advise institutions on their real estate allocations;

- advisors do not invest their own funds; they earn fees based on assets under advisement; and
- review policies, procedures, allocations and recommended investments for pension fund and other clients.

The LFC reported on the status of real estate investments.

SIC and ERB have target allocations to real estate while PERA has allocations to real estate and real assets. Real estate can be direct or indirect investments in properties, including but not limited to: apartments, hotels, office buildings and industrial sites. Real assets are investments in tangible assets other than property such as timber, energy and natural resources and commodities. SIC has been investing in real estate since 2003, while retirement funds only started investing in 2007. Allocations as of March 31, 2007 are as follows:

	Real Estate		Real Assets	
	Actual	Target	Actual	Target
SIC-LGPF	1.3%	3.0%		0.0%
SIC-STPF	2.2%	3.0%		0.0%
ERB	4.3%	5.0%		0.0%
PERA	0.0%	2.5%	0.0%	2.5%

SIC, as of 3/31/07, has $245 million invested and has committed $601.8 million. PERA has committed $30 million to an opportunist real estate fund (Carlyle Real Estate V). The main benchmark for real estate is the National Council of Real Estate Investment Fiduciaries (NCREIF) index, which is an index of property operating information. Courtland Partners, real estate advisor to SIC and ERB, also maintains a database separated into value and opportunistic strategies. As the chart shows below, the historic range of annualized returns for each category is between 10% and 17%.

Investments within the real estate class can be diversified in three ways: strategy, geography and property type. Strategy diversification categorizes investments as core, value or opportunistic in order of risk.

Geographic diversification is categorized by region (national versus international, west versus east) or by size (urban versus rural). Property type diversification is categorized by the mix of properties: apartments, office buildings, hotels, etc.

A comprehensive comparison of agency investments can be found on the LFC web site (http://legis.state.nm.us/lcs/lfc/lfcpublications.asp) under the heading "Quarterly Investment Reports".

Representative Larrañaga asked about the geographic location of real estate investments. Mr. Novick stated that the most promising markets are on the east and west coasts. Urban retail properties are very desirable.

Other Business

There was no other business brought before the committee.

The committee adjourned at 4:30 p.m.